



AN ASSOCIATION OF  
MONTANA HEALTH  
CARE PROVIDERS

Testimony on HB 2  
Before the Joint Appropriations Subcommittee on Human Services  
January 17, 2013  
**Bob Olsen, Vice President, MHA**

MHA appreciates this opportunity to provide our comment to the Medicaid budget for the Health Resources Division. This division includes the funding for hospital and physician services. Our comments today are focused on several of the decision packages that this body will consider.

#### **Provider Rates**

MHA supports the Governor's proposal to increase provider rates over the next two years. Hospitals, like many other providers, have not seen a rate hike in several years. The 2009 legislature approved modest rate increases only to have the Governor cancel them when he believed the State general fund forecast was inadequate to cover the costs. While it turned out that the general fund was adequate, the rate increases denied were not restored.

In 2011 the Montana Legislature established hospital rates at the SFY 09 level, and physician payments at the SFY 2010 level. This action means that Medicaid has not adjusted its payments for inflation for 4 years. Even with just 3% inflation in medical costs, the cumulative impact is a reduction of 12.5% in payments.

When Medicaid fails to adjust their rates over time, the gap between treatment costs and state payments grows. That gap results in some providers shifting the unpaid costs to privately insured patients, while other providers simply limit or stop seeing Medicaid patients altogether.

The 2% per year increase is below the current rate of inflation, and does nothing to make up for the years no increase was allowed. Still, hospitals realize that hiking payments is an expensive proposition for the State. We note that the general fund has a reasonable balance, and now is a reasonable time to increase rates.

**MHA recommends that the Subcommittee approve a 3% per year increase for hospital services for the biennium. The amount is greater than proposed by the executive, and lower than required to fully fund inflation. But the 3% is a reasonable compromise that we believe the state can afford.**

#### **Hospital Utilization Fee**

Montana's hospitals proposed establishing a fee on inpatient hospital days in 2003 as a means of reducing pressure on the State general fund while increasing payments to

hospitals. This public-private program is intended to enhance Medicaid payments to reduce, if not eliminate, the gap between Medicaid treatment costs and Medicaid program payments for hospital care.

The program has worked successfully, and we expect to continue this program into the future. There are discussions in Congress to reduce the amount of provider fees that can be used to help fund the Medicaid program. Montana's HUF is well below the limits being discussed by Congress.

For those new to the Subcommittee, we provide a brief explanation of this program. Each January the hospitals pay a \$50 fee for each inpatient day of care for the prior 12-month period. Those funds are used by DPHHS to draw matching federal funds and paid to the hospitals in the form a supplemental payment. The hospitals provide about \$22 million in fees, and the Department makes a supplemental payment of about \$65 million. The payment to any hospital is tied to Medicaid services provided by that hospital. As a result of the HUF program, Medicaid payments are estimated to cover between 90 and 95% of Medicaid treatment costs. Without the HUF, Medicaid would pay less than 70% of those same costs.

The LFD analysis noted that hospital inpatient days subject to the fee have declined in each of the last 3 years, from 443,554 in 2010 to 424,752 days in 2012. Hospitals have reported this downward trend due to several factors. First, the decline in patient days follows the recession. Fewer elective services are purchased during difficult economic times, and people tend to put off services that aren't elective, but can wait. Second, there has been a decided shift from providing 1-day hospital stays to increasing use of outpatient observation status.

Finally, hospitals have admitted fewer cases of pneumonia and influenza in recent years. This is attributed to the combination of higher vaccination rates and having a lighter than normal flu and pneumonia season.

Some hospitals are beginning to see higher patient census as the economy recovers. We are not sure that a new trend is emerging. Hospitals are paying their 2013 fees during January, and will have a better idea about projecting the HUF program in February.

**Even though we may be uncertain about the patient days over the next two years, MHA recommends that the Subcommittee provide adequate budget authority to the Department for both the fees paid by the hospitals and the matching federal funds.** State law provides for using all of the fees paid by the hospitals, and the Department has just 28 days from the fee payment deadline to make the supplemental payment to the hospitals. Having too few dollars in the budget only serves to trap the Department from adhering to state law.

### **Medicaid DSH Funds**

Montana Medicaid receives a fixed annual allocation of funding known as Disproportionate Share Hospital funds. These funds are intended to help States close the gap between their routine payments and Medicaid treatment costs, and to mitigate the impact on hospital costs to treat uninsured patients. Montana's federal allocation is

\$11.6 million, and is adjusted slightly each year. The bulk of the DSH funds are matched by the hospital utilization fees.

One of the ways the federal government funds the ACA premium tax credits and increased Medicaid expansion is by reducing the States' DSH funds. The policy behind this change is that as insurance coverage grows there is less need for federal funds to help pay for treating the uninsured.

Federal rules that describe how the DSH funds will be decreased will be proposed this spring. The ACA indicates that the drop in DSH funds will be tied in part by measuring changes in the State's uninsured rates. Final rules won't be released until after the conclusion of the 63<sup>rd</sup> Legislative Assembly.

**MHA recommends that the Subcommittee appropriate the full amount of DSH funds provided in the federal allocation, together with state matching funds.**

#### **Physician Services**

MHA is concerned that the Department correctly calculate the inflation index costs for the physician program for the next two years. Since physician fees are established as a matter of law, the full cost of this program must be absorbed from the total budget. Not having enough funding authority for this program could require the Department to take funding from other programs.

**MHA asks that the Department and the Subcommittee assure that the present law adjustment for this program is calculated accurately.**

#### **Caseload**

Projecting the future growth in costs, utilization and other factors that make up the caseload growth is a difficult task. MHA appreciates the Department's efforts to provide a reliable forecast of funding to maintain current level services over the next two years. And we also appreciate the role of the LFD to determine and provide guidance to the Subcommittee about the caseload projections. Over time, DPHHS has usually provided accurate budget projections. Being more than 95% accurate is a sign of good forecasting.

MHA is concerned about the forecast. A too-high forecast may prompt lawmakers to demand other program reductions or withhold rate increases. A too-low forecast means that the Department won't have enough funding to maintain current services, and current payment rates. Getting this projection right means that providers can have confidence that the policy plans adopted now will likely take place in the following two years.

Thank you for your consideration.



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## Ten-Year Estimated Medicare Revenue Cuts to Fund PPACA

Medicare Marketbasket Reductions	Home Health Rural Add On	Medicare DSH Reductions	Medicare Readmission Penalties	One-Year Extension of \$508s	One-Year Extension of OPPS Corridor	Frontier State Protections*	Total
<b>(\$339,940,000)</b>	<b>\$4,749,000</b>	<b>(\$26,026,000)</b>	<b>(\$5,457,000)</b>	<b>\$1,115,000</b>	<b>\$864,000</b>	<b>\$167,612,000</b>	<b>(\$197,083,000)</b>
270002 Holy Rosary Healthcare	\$5,201,000	\$0	\$0	\$112,000	\$0	\$0	(\$5,089,000)
270003 St Peters Hospital	(\$18,455,000)	\$208,000	(\$2,009,000)	(\$107,000)	\$0	\$0	(\$20,363,000)
270004 Billings Clinic	(\$55,981,000)	\$0	(\$10,283,000)	(\$3,494,000)	\$0	\$0	(\$9,514,000)
270011 Central Montana Medical Center	\$2,250,000	\$35,000	\$0	\$0	\$0	\$0	(\$2,215,000)
270012 Benefis Health System	(\$43,340,000)	\$0	(\$961,000)	(\$749,000)	\$467,000	\$0	(\$44,583,000)
270014 Saint Patrick Hospital	(\$34,124,000)	\$0	(\$197,000)	\$0	\$0	\$0	(\$31,503,000)
270017 St James Healthcare	(\$14,540,000)	\$0	\$0	(\$287,000)	\$0	\$0	(\$14,234,000)
270023 Community Medical Center	(\$14,774,000)	\$0	(\$715,000)	\$0	(\$62,000)	\$0	(\$2,197,000)
270032 Northern Montana Hospital	\$5,137,000	\$35,000	\$0	(\$621,000)	\$96,000	\$0	(\$13,354,000)
270049 St. Vincent Healthcare	(\$46,318,000)	\$0	(\$11,497,000)	\$0	\$0	\$0	(\$28,538,000)
270051 Kalispell Regional Health Care	(\$28,707,000)	\$384,000	(\$364,000)	(\$199,000)	\$502,000	\$0	(\$28,687,000)
270081 Bozeman Deaconess Hospital	(\$15,863,000)	\$0	\$0	(\$199,000)	\$0	\$0	(\$15,289,000)
270086 Great Falls Clinic Medical Center	(\$432,000)	\$0	\$0	\$0	\$0	\$0	(\$432,000)
270087 The Health Center - Kalispell	(\$4,636,000)	\$0	\$0	\$0	\$0	\$0	(\$4,166,000)
271300 NEMontana Health Services - Poplar	\$0	\$0	\$0	\$0	\$0	\$0	\$0
271301 Fallon Medical Complex	\$0	\$0	\$0	\$0	\$0	\$0	(\$23,000)
271302 Dahl Memorial Healthcare Assoc.	(\$23,000)	\$0	\$0	\$0	\$0	\$0	\$0
271303 Granite County Medical Center	\$0	\$0	\$0	\$0	\$0	\$0	(\$284,000)
271304 Missouri River Medical Center	(\$299,000)	\$5,000	\$0	\$0	\$0	\$0	(\$294,000)
271305 McCone County Health Center	(\$37,000)	\$0	\$0	\$0	\$0	\$0	(\$37,000)
271306 Mountainview Medical Center	\$0	\$0	\$0	\$0	\$0	\$0	\$0
271307 Teton Medical Center	(\$5,000)	\$0	\$0	\$0	\$0	\$0	(\$5,000)
271308 Roosevelt Memorial Medical Center	(\$21,000)	\$0	\$0	\$0	\$0	\$0	(\$21,000)
271309 Prairie Community Hospital	(\$21,000)	\$0	\$0	\$0	\$0	\$0	(\$21,000)
271310 Garfield Co. Health Center	(\$7,000)	\$0	\$0	\$0	\$0	\$0	(\$7,000)
271311 Big Sandy Medical Center	(\$12,000)	\$0	\$0	\$0	\$0	\$0	(\$12,000)
271312 Phillips County Hospital	(\$189,000)	\$20,000	\$0	\$0	\$0	\$0	(\$169,000)
271313 Pioneer Medical Center	\$0	\$0	\$0	\$0	\$0	\$0	\$0
271314 Powell County Memorial Hospital	\$0	\$0	\$0	\$0	\$0	\$0	\$0
271316 Frances Mahon Deaconess Hospital	\$0	\$0	\$0	\$0	\$0	\$0	\$0
271317 Livingston Healthcare	(\$963,000)	\$101,000	\$0	\$0	\$0	\$0	(\$862,000)
271318 Barrett Hospital & Health Center	(\$380,000)	\$40,000	\$0	\$0	\$0	\$0	(\$340,000)
271319 Ruby Valley Hospital	\$0	\$0	\$0	\$0	\$0	\$0	\$0
271320 St. John's Lutheran Hospital	(\$604,000)	\$63,000	\$0	\$0	\$0	\$0	(\$541,000)
271321 Wheatland Memorial Healthcare	\$0	\$0	\$0	\$0	\$0	\$0	\$0
271322 Sheridan Memorial Hospital	(\$128,000)	\$7,000	\$0	\$0	\$0	\$0	(\$121,000)
271323 Clark Fork Valley Hospital	(\$552,000)	\$56,000	\$0	\$0	\$0	\$0	(\$496,000)
271324 Pondera Medical Center	(\$207,000)	\$17,000	\$0	\$0	\$0	\$0	(\$190,000)
271325 St. Luke Community Hospital	(\$369,000)	\$30,000	\$0	\$0	\$0	\$0	(\$339,000)
271326 Beartooth Hospital & Health Center	(\$742,000)	\$0	\$0	\$0	\$0	\$0	(\$742,000)
271327 Rosebud Healthcare Center	(\$51,000)	\$0	\$0	\$0	\$0	\$0	(\$51,000)
271328 Marias Medical Center	(\$44,000)	\$11,000	\$0	\$0	\$0	\$0	(\$33,000)
271329 Madison Valley Medical Center	\$0	\$0	\$0	\$0	\$0	\$0	(\$25,000)
271330 Stillwater Community Hospital	(\$190,000)	\$20,000	\$0	\$0	\$0	\$0	(\$170,000)
271331 Mineral Community Hospital	\$0	\$0	\$0	\$0	\$0	\$0	\$0
271332 Glendive Medical Center	(\$854,000)	\$76,000	\$0	\$0	\$0	\$0	(\$878,000)
271333 Broadwater Health Center	(\$10,000)	\$0	\$0	\$0	\$0	\$0	(\$10,000)
271334 Liberty Medical Center	(\$25,000)	\$0	\$0	\$0	\$0	\$0	(\$25,000)
271335 Community Hospital of Anaconda	(\$402,000)	\$24,000	\$0	\$0	\$0	\$0	(\$378,000)
271336 North Valley Hospital	\$0	\$0	\$0	\$0	\$0	\$0	\$0
271337 Northern Rockies Medical Center	\$0	\$0	\$0	\$0	\$0	\$0	\$0
271338 Big Horn County Memorial Hospital	\$0	\$0	\$0	\$0	\$0	\$0	\$0
271340 Marcus Daly Memorial Hospital	(\$1,430,000)	\$147,000	\$0	\$0	\$0	\$0	(\$1,283,000)

271341	NE Montana Health Services - Wolf Point	(\$65,000)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
271342	Daniels Memorial Healthcare Center	(\$28,000)	\$3,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
271343	St Joseph Hospital	(\$414,000)	\$43,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
271344	Sidney Health Center	(\$1,048,000)	\$69,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
274004	Shodair Children's Hospital	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
27	Montana - Freestanding Providers	(\$39,097,000)	\$3,345,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
274086	Montana State Hospital	(\$2,024,000)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0



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**Federal Medicaid DSH Fund Impact Projection**  
Assumes: 25% per year reduction, zero DSH after hospital

